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HRI Food Service Sector

Report

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Approved by:

Wayne Molstad, Agricultural Counselor
U.S. Embassy

Prepared by:

Charles Rush, Agricultural Attaché/The Economic Consulting and Research Company

Report Highlights:

Food imports account for 21 percent of all food products used in the food service sector in Lithuania of which U.S. imports are minimal. Over the last two years Lithuanians have increasingly dined out more than ever before. Local food manufacturers and distributors are the largest suppliers for the HRI sector. This report provides an overview of Lithuania's HRI sector.

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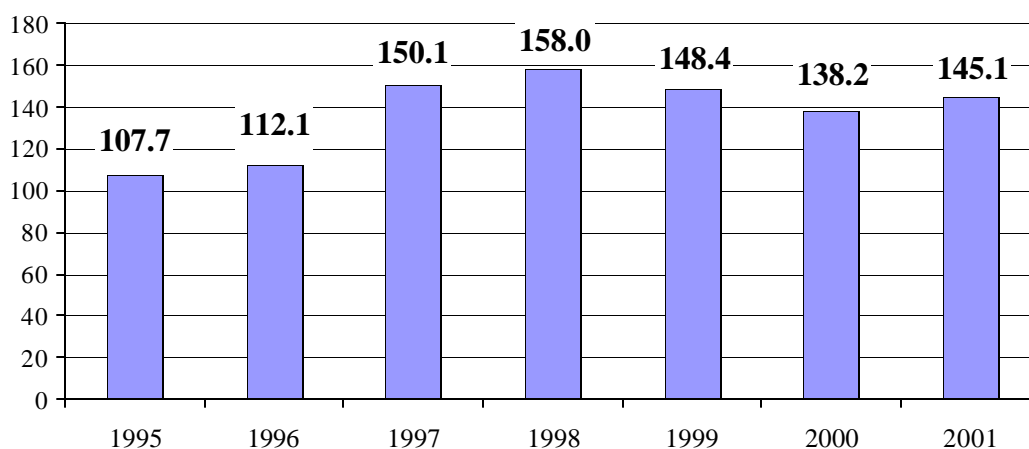
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The Lithuanian HRI Sector

From 1995 to 2001, Lithuania's HRI market grew 35 percent generating revenue of \$145.1 million¹. The sale of food products and beverages at restaurants and other HRI establishments rose from \$108 million in 1995 to \$158 million in 1998. In 1999 HRI establishments sales fell 6 percent compared with 1998 sales of \$148.4 million. In 2000 sales decreased 7 percent compared with 1999. However, sales of food products and beverages at restaurants and other HRI establishments increased 5 percent and were valued at \$145.1 million in 2001.

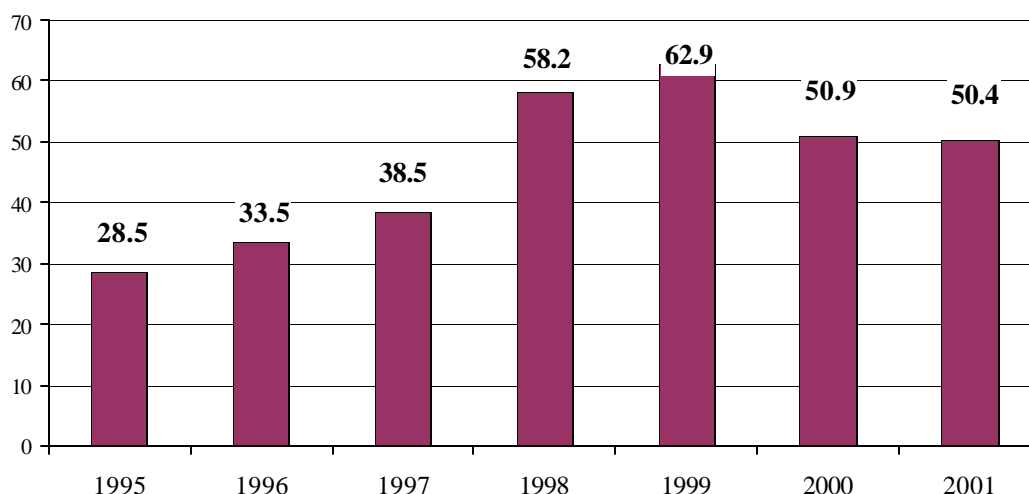
Figure 1. Food and beverage sales at HRI establishments in Lithuania from 1995 to 2001 (million US dollars)



Based on data from the Lithuanian Department of Statistics

In 2001, alcoholic beverages accounted for 37 percent of the total food and beverage sales at HRI businesses. The volume of alcoholic beverage sales rose much faster than other food products until 1999. However, the volume of food sales rose faster in 2000 and 2001. In 2001, HRI businesses had revenues of \$93 million in total food sales, a decrease of 17 percent compared with 1995. Alcoholic beverage sales were valued at \$50.4 million, up 24 percent from 1995.

Figure 2. Sales of alcoholic beverages at HRI establishments between 1995 and 2001 (million US dollars)



Based on data from Lithuanian Department of Statistics

In 2001, local food products accounted for about 79 percent of total trade by HRI businesses, while imports comprised 21 percent (69 percent and 31 percent respectively in 1999). In 2001, sales of local food products and beverages were valued at \$114.6 million, while imports were valued at \$30.5 million.

In 2001, disposable monthly household income per household member was estimated at \$102.00. Average monthly consumption expenditures per household member spent in hotels, cafes and restaurants was about 10 percent (9 percent in 2000, 8 percent in 1999,) of the total expenditure on food and beverages. These expenditures have increased by 28 percent over the past six years (from \$3.35 in 1996 to \$4.3 in 2001).

The main social - economic indicators influencing consumption in HRI:

- ! Small households dominate in Lithuania (24 percent of households are single occupant and 5.7 percent of the households are single parent).
- ! Lithuania is an urban country (in the beginning of 2002, 67 percent of the population lived in cities and towns and 33 percent lived in the countryside).
- ! Households consisting of persons 30 years of age and older had incomes of \$112 per person per month (this index is higher in households of persons between age 50 and 59). The expenditures of this demographic group in hotels, restaurants, and coffee shops are about \$7 per person monthly.
- ! According to the 2001 Lithuanian census, the population decreased by 190,800 compared to the census of 1989. Nearly 297,000 people left Lithuania over the last 12 years.

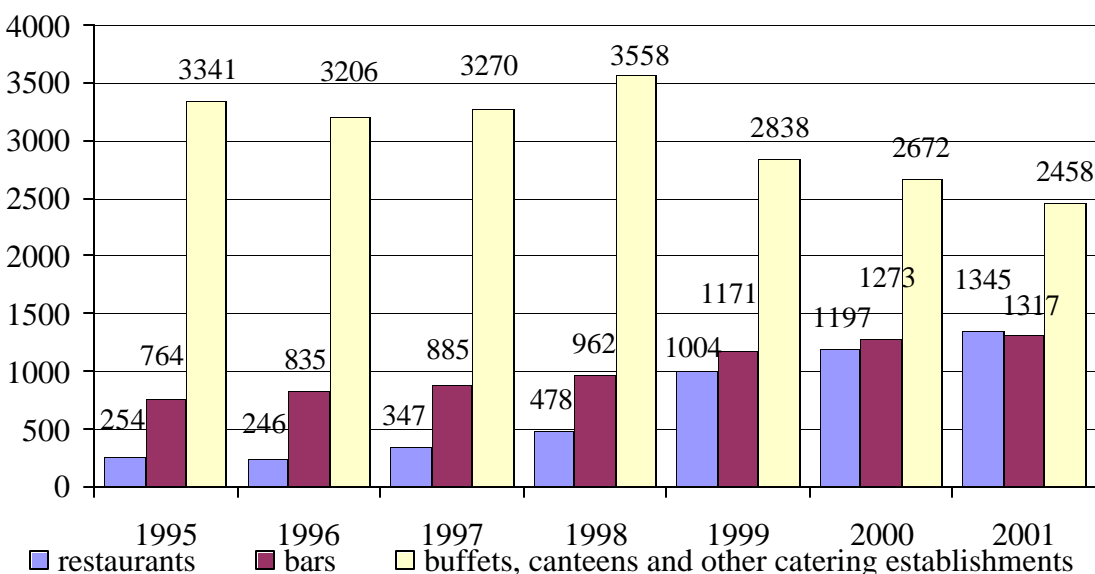
The number of restaurants, bars and other HRI establishments increased steadily over the six-year period (1995-2001). There was an increase from 4,359 in 1995 to 5,120 in 2001, about 15 percent.

Over the past five years restaurants showed the most rapid growth. Between 1997 and 2001, the number of restaurants increased 280 percent. Small restaurants and cafes (50 seats) increased by 17 percent between 1995 and 2001.

There has been a dynamic increase in the number of bars in Lithuania. The number of bars has increased 33 percent since 1997. According to the most current statistics there were 1,317 bars in 2001. The number of bars increased 3 to 18 percent annually. The average number of seats per bar has increased as well.

The recession has affected only buffet type restaurants. Over the past five years, the number of establishments of this type decreased almost 25 percent.

Figure 3. Changes in the number of HRI establishments between 1995 and 2001



Compiled based on data from the Lithuanian Department of Statistics

The opportunities and challenges of entering the Lithuanian HRI sector.

| Advantages | Disadvantages |
|---|--|
| <ul style="list-style-type: none"> • Rapid economic growth • Increase in restaurant dining • Slightly increased spending at restaurants, cafes and other HRI establishments over the last few years • Not enough HRI institutions offering exotic cuisines: seafood, Japanese, Mexican, etc • Steady flow of tourism • Very high competition among Lithuanian milk and grocery producers: high quality and low price products are offered | <ul style="list-style-type: none"> • Only 21 percent of food was imported in 2001 • Well developed beer industry • The use of domestic beef, pork and chicken by the HRI industry • No guarantee of quality products by local manufacturers • Limited promotion of American commodities • Largest restaurants are in the three largest cities (Vilnius, Kaunas, Klaipėda) • Small Lithuanian HRI market and conservative consumers in Lithuania |

Strategy For Market Entry

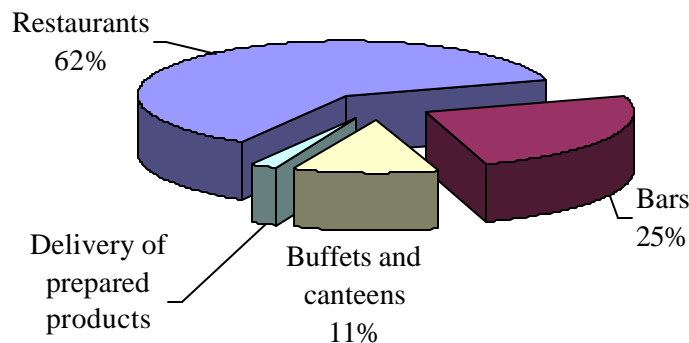
Food sales at HRI businesses account for six percent of total retail food sales. The HRI sector is not saturated, during recent years several restaurant chains and bars have opened. The main supply channels remain the same. HRI establishments obtain the bulk of their supplies from food wholesalers who serve both retail stores and HRI businesses.

There are several ways to enter the Lithuanian HRI market:

- Distributors and representatives already operating in Lithuania and distributing food products both to retail outlets and HRI establishments;
- Creating a specialized HRI distribution structure;
- Establishing a fast food chain;
- Selling a franchise;
- Establishing several expensive and high quality restaurants;
- Establishing restaurants with exotic cuisines (Japanese, Mexican, sea food);
- Vending;
- Lunch-time restaurants;

Types of HRI Establishments

Figure 4. The sales of HRI establishments by type of business in 2001



Based on data from Lithuanian Department of Statistics

In 2001 as in 1999, restaurants had the highest sales of food products and beverages. Their sales accounted for 62 percent of the total food sales in the HRI sector.

1 Restaurants

1. The establishment of restaurants offering different national, especially Asian cuisines;
2. The establishment of restaurants and bars in shopping malls, hypermarkets, entertainment centers and fitness centers;
3. The development of pizzerias and pizza chain restaurants

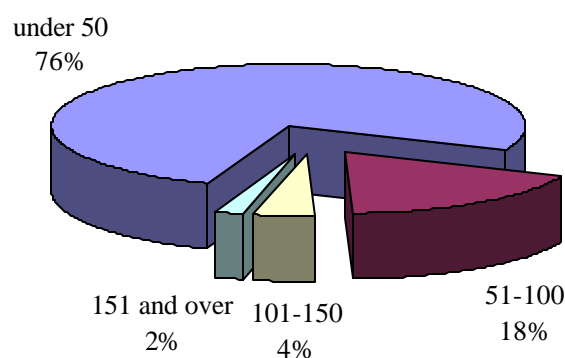
In 2001, annual sales at restaurants (hotel restaurants excluded) was valued at \$56 million and constituted 62 percent of total HRI sales.

The number of new restaurants increased rapidly from 1998 to 2002. The development of the restaurant sector is characterized by:

- Small restaurants with limited seating;
- Restaurants chains;
- Restaurants and bars at holiday resorts (Palanga city, Druskininkai town, etc.);
- Growing tradition of families eating out, also celebrating non-traditional holidays (such as Halloween, St. Valentine Day) in bars and restaurants.

The number of small restaurants with fewer than 50 seats increased between 1995 and 2001. The proportion of such restaurants in the total number of restaurants rose from 59 percent in 1995 to 76 percent in 2001.

Figure 5. Restaurants by the number of seats in 2001



Based on data from the Lithuanian Department of Statistics

Restaurant owners complain of a shortage of fresh fish, Mexican spices and sauces, and of some wines (Madeiros) in Lithuania. The most popular dishes among restaurant patrons are **beef, pork, chicken and Lithuanian potato dishes**. Fish dishes and seafood (*oysters, shrimps, etc.*) are becoming increasingly popular. Lithuanian bars and restaurants do not offer varied non-alcoholic cocktails currently. Industry experts indicate that HRI establishments obtain meat from farmers or local distributors. Lithuanian restaurants buy imported beverages from wholesalers **Sanitex, Mineraliniai Vandeny, Trojina** and others. Many also buy from retail centers because of the bigger discounts from wholesalers and some retail centers offer international products. Some Lithuanian products are obtained from intermediaries, although many (meat, dairy products, poultry, etc.) are bought directly from local sources.

2 Hotel Restaurants

The number of hotels increased from 166 in 1997 to 240 in mid-2002. In 2002, there were 6,060 hotel rooms (13 percent more compared with 1999). In 2001, Lithuanian hotels accommodated 447,163 guests. Foreigners accounted for 69 percent of all guests in Lithuanian hotels. The typical hotel guests in Lithuania are tourists and businesspersons. Tourism is not well developed in Lithuania. In 2001 (the most current data), hotel revenues were \$43million.

In 2002 seven hotels were opened or renovated. In addition, 16 hotels (mostly economy class) are expected to open in Vilnius in 2003. In Kaunas and Klaipėda there has been an increase in the number of hotels opened. Two hotels, *Navalis* and *Europa* were opened in 2002 in Klaipėda. *Baltpark* will open and *Klaipėda* will be renovated in 2003.

Table 1. The largest hotels in Lithuania

| Name | Number of rooms | Room occupation 2000m., percent | Food supply | Cuisine | Location |
|--|-----------------|---------------------------------|---------------------------------------|----------------------|----------|
| Radisson SAS Astoria Hotel | 120 | 71 | Imports, wholesalers, local producers | European | Vilnius |
| Le Meridien Villon | 160 | 51 | Distributors, direct | Internt'l | Vilnius |
| Centrum | 100 | 54 | Distributors, direct | European | Vilnius |
| Klaipėda Hotel | 219 | 43 | Wholesalers | European | Klaipėda |
| Mabre Residence Hotel, City Park Hotel | 66 | 54 | Wholesalers | European | Vilnius |
| Best Western Santaka Hotel | 102 | 51 | Wholesalers | European, Lithuanian | Kaunas |

According to hotel industry experts, competition among hotels is increasing, but tourism is not growing at the same pace. It is anticipated that the number of rooms will increase 50-100 percent within the next two years.

The average worldwide hotel occupancy rate is 60-70 percent. The average hotel occupancy rate in Lithuania was 20-50 percent in 2001. Hotels in Vilnius have the highest occupancy rate in Lithuania (53 percent in the 2nd quarter of 2002), the hotel occupancy rate in Kaunas was 40 percent, and it was 33 percent in Klaipėda.

There are 30 hotels in Lithuania classified as five star. The following hotel chains have properties in Lithuania: Radisson SAS, Scandic Hotels, Le Meridien, Summit Hotels & Resorts, Best Western, Relais & Chateaux and Holiday Inn. Soon Reval Hotel Group, Crowne Plaza, Novotel, Marriott and Kempinski will have a presence in Lithuania.

Hotels in Lithuania are increasingly concerned with modernizing restaurant equipment and enhancing their cuisines. Most hotels serve European cuisines. The most popular dishes served at Lithuanian hotels are *salads, beefsteak, steaks, chicken* and *mutton*. Among tourists, breakfast dishes such as omelets, salads, hot sandwiches etc. are popular. Hotels are trying to attract groups by offering a business dinner menu or arranging occasional evenings or parties.

Lithuanian hotels buy imported food products from wholesalers; however, meat, dairy, confectionery, etc. are purchased domestically.

3 Fast Food Restaurants

Table 2. Fast food restaurants

| Name | Location | Number of restaurants | Food supply | Cuisine |
|-------------|---------------------------|-----------------------|---------------|-----------------------|
| McDonalds | Lietuva | 6 | Direct, dist. | American |
| Mao Express | Vilnius, Kaunas, Klaipėda | 3 | Direct, dist. | Chinese |
| Kuba | Vilnius, Kaunas | 2 | Direct, dist. | Traditional |
| U suk | Vilnius | 1 | Direct, dist. | Traditional |
| Aqua | Vilnius | 2 | Wholesaler | Traditional (seafood) |
| Lido | Vilnius | 1 | Direct, dist. | Traditional |

Many gas stations such as *Statoil* and *Shell* also provide fast food services. The sale of fast food in gas stations represents 10-15 percent of their total revenue. Seasonal restaurants which sell hot dogs or hot sandwiches operate during summer months particularly in resorts areas.

Despite high import duties, McDonalds in Lithuania uses meat imported from neighboring countries. For example, chicken by-products are imported from Poland. Until 2002, Lithuanian companies were unable to supply McDonalds restaurants because they did not meet their requirements.

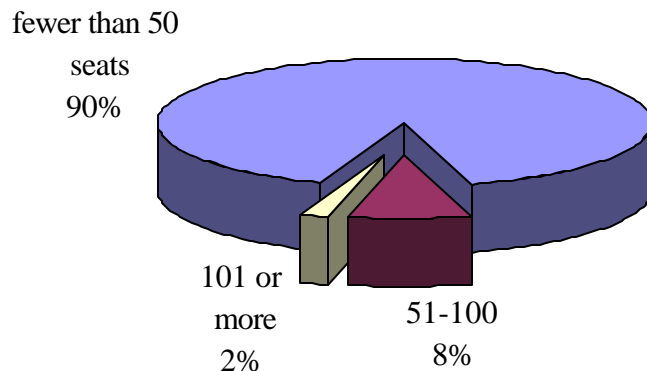
4 Pizzerias

Pizzerias are quite popular among Lithuanians, especially young people. Pizza chains have been expanding in the larger Lithuanians cities recently. At the beginning of 2002, there were nine *Cili* and seven *Pizza Jazz* pizzerias in Lithuania. *Cili* is also successfully expanding in Latvia.

Most pizza ingredients are imported. For example, Pizza Jazz imports flour from Sweden because Lithuanian mills are not able to ensure the availability of quality flour on a regular basis. Tomato paste is imported from Spain and Italy, but local manufacturers supply meat and meat products. Imported vegetables are used during the winter season, while domestic vegetables dominates in summer time. Pizzerias also provide take out food services. It is becoming popular to order food on the internet or by phone during lunch time.

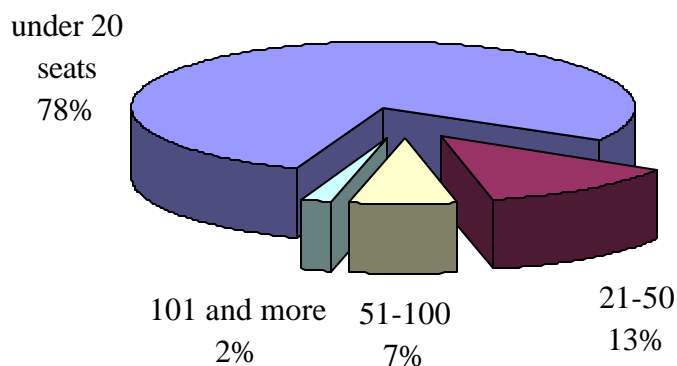
5 Other HRI Establishments

The sales of other HRI establishments (bars, buffets and canteens) account for 38 percent of total HRI sales. In 2001, bars with fewer than 50 seats were dominant. However, their share of the market decreased from 93 percent in 1995 to 90 percent in 2001.

Figure 6. Bars by the number of seats in 2001

Based on data from the Lithuanian Department of Statistics

From 1995 to 2001, most buffets and cafeterias had fewer than 20 seats. The number of larger buffets and cafeterias fractionally increased during this period.

Figure 7. Buffets and canteens by the number of seats in 2001

Based on data from the Lithuanian Department of Statistics

Bars, buffets and canteens offer dishes made of local products. The most popular dishes are those made of beef and pork. Vegetables and confectionary products are widely used as well. Small HRI establishments buy their products from stores or from large manufacturers such as meat and dairy factories.

There is an increasing demand for alcoholic beverages – especially local beer. This may be attributed to the strong Lithuanian beer industry and beer drinking traditions.

Prospects For Sector Development

The number of HRI businesses has been on the rise since 1995. This upward trend is expected to continue as Lithuania integrates into the global and tourist travel market. It is

estimated that tourism will increase in the future, accelerating the growth of the hotel industry. Tourists spend about 17 percent of their money on accommodations and about 23 percent on food and drinks.

It is popular in Lithuania to spend vacations near the Baltic Sea (the most popular resorts are Palanga, Nida, Juodkrantė, etc.). The HRI infrastructure in these resorts is not well developed. There is potential for establishing new seasonal bars and restaurants on the coast of Lithuania. Additionally, some tourism related businesses can apply for financing from the EU structural funds.

Competition

Local wholesalers remain the biggest suppliers for Lithuania's HRI sector. The traditional commodities used by HRI establishments, such as pork, beef, veal, and dairy products, are purchased from local companies. The bulk of food imports come from Germany (12 percent), Poland (7 percent), Latvia (8 percent), and Hungary (7 percent). Imports from the United States account for 5 percent of total food sales to HRI establishments.

U.S. suppliers are not very well positioned in Lithuania for two reasons: U.S. suppliers have not demonstrated a great deal of interest in penetrating Lithuania's small market and Lithuania's HRI institutions are well supplied by local wholesalers. When Lithuanian HRI institutions need supplies, they contact local distributors or wholesalers before looking for imported products. The decline in the value of the U.S. dollar against the Euro has created price advantages for U.S. products, however.

Food Products In Demand

Traditionally, alcoholic beverages play an important role in the HRI sector. Wines, sparkling wines, brandy, whiskey and vodka are imported in large quantities. HRI alcoholic beverage sales were valued at \$50.4 million in 2001. Wines (including sparkling wines) comprise 51 percent of the total volume of alcoholic beverage import value. In addition, spirits constitute 21 percent and beer constitutes 18 percent. American whiskies occupy a more distinct position among alcoholic beverages sold at HRI businesses.

- o Spices and potherbs – such as rosemary, mints, Indian and Japanese spices
- o Fruits and delicate vegetables: such as artichoke and asparagus
- o Fish and seafood – fresh prawns, sea tongue, fresh fish, etc.
- o Veal and lamb

Integration Into The European Union

- Spending at restaurants, cafes and other HRI establishments should increase because of the expected growth in domestic consumption;
- Higher wages and increased disposable income.
- Increase in tourism.
- Improved conference services at hotels.
- Implementation of the EU requirements should improve the fishery sector competitiveness.
- Agricultural sector should receive support from EU structural funds.
- Modernized transportation infrastructure and the main highways will be integrated into transeuropean networks.
- Countryside tourism should develop support from the EU structural funds and Phare programs.
- Higher hotel occupancy.

Further Contacts and Information

If you have any questions or comments regarding this report, or need assistance in exporting to Lithuania, please contact the Office of Agricultural Affairs in Warsaw, at the following address:

Office of Agricultural Affairs
American Embassy
Al. Ujazdowskie 29/31
00-540 Warsaw
Poland

Ph: 4822-504.2336

Fax: 4822-504.2320

e-mail: agwarsaw@usda.gov.

agwarsaw@wp.pl

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